

Message Text

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PAGE 01 BRASIL 04689 091924Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 L-03 H-02
NSC-05 SS-15 STR-04 CEA-01 PA-02 PRS-01 /103 W
-----100414Z 005895 /17

R 091340Z JUN 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 2107
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

UNCLAS BRASILIA 4689

E.O. 11652: N/A
TAGS: EFIN, ECON, BR
SUBJECT: GOVERNMENT BUDGET GUIDELINES FOR 1978 APPROVED

REF: BRASILIA A-15, JANUARY 27, 1977

SUMMARY.

1. PRESIDENT GEISEL HAS APPROVED OVERALL GUIDELINES FOR THE 1978 FEDERAL BUDGET, WHICH THE PLANNING SECRETARIAT WILL USE IN PREPARING A BUDGET SUBMISSION TO BE PRESENTED TO CONGRESS BY AUGUST 31. THE GUIDELINES FORESEE A BALANCED BUDGET, WITH TAX REVENUES AND EXPENDITURES AT CR\$316 BILLION, AN INCREASE OF 29 PERCENT, IN NOMINAL TERMS, FROM THE PROJECTED 1977 TOTALS. END SUMMARY

2. FOLLOWING IS A BREAKDOWN OF PROPOSED 1978 EXPENDITURES, COMPARED WITH PROJECTED 1977 FIGURES (BILLIONS OF CRUZEIROS):

1978 1977

EXPENDITURES WITH EARMARKED
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PAGE 02 BRASIL 04689 091924Z

FUNDS	155.5	126.3
PERSONNEL COSTS	84.9	58.7
SPECIAL RESERVE FUND	20.0	14.0
OTHER EXPENDITURES	55.6	46.0
	316.0	245.0

COMMENT

3. THE PROPOSED BALANCED BUDGET IS IN LINE WITH THE PRESENT GOVERNMENT'S FISCAL POLICY PHILOSOPHY. FOR THE LAST THREE YEARS, IT HAS PRESENTED BALANCED BUDGETS. IN EACH INSTANCE, HOWEVER, IT UNDERESTIMATED REVENUES AND OVERESTIMATED EXPENDITURES SO THAT THE ACCOUNTS CLOSED IN THE BLACK. ALTHOUGH THE ASSUMPTIONS UNDERLYING THE 1978 BUDGET WERE NOT MADE PUBLIC, PARTICULARLY WITH RESPECT TO THE PROJECTED RATE OF INFLATION, IT IS PROBABLY SAFE TO ASSUME THAT THE UNDERESTIMATION/OVERESTIMATION OF THE PAST CONTINUES, AND THAT THE BUDGET WILL AGAIN CLOSE IN SURPLUS.

4. IN FACT, BECAUSE OF THE UNDERSTIMATION OF INFLATION IN THE 1977 BUDGET FORECASTS, THE ACCOUNTS HAVE REPORTEDLY SHOWN MODEST SURPLUS DURING THE FIRST FOUR MONTHS OF THIS YEAR. (SINCE OVER 60 PERCENT OF REVENUES ARE DERIVED FROM INDIRECT TAXES, HIGHER-THAN-PROJECTED RATES OF INFLATION HAVE A DIRECT BEARING ON TOTAL REVENUES). AVAILABLE DATA FOR THE FIRST TWO MONTHS SHOW A CUMULATIVE SURPLUS OF CR\$9.8 BILLION (ABOUT US\$700 MILLION). THE ECONOMIC DEVELOPMENT COUNCIL (CDE) HAS, THEREFORE, DECIDED TO USE THIS SURPLUS TO PAY OFF OVERDUE PUBLIC WORKS DEBTS TO THE CONSTRUCTION INDUSTRY WHICH IS SUFFERING FROM INCREASED UNEMPLOYMENT RESULTING FROM ECONOMIC SLOWDOWN. ACCORDING TO A LOCAL TRADE
UNCLASSIFIED

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PAGE 03 BRASIL 04689 091924Z

ASSOCIATION, CUMULATIVE OVERDUE DEBTS ON PUBLIC WORKS CONTRACTS BY ALL LEVELS OF GOVERNMENT AMOUNTED TO CR\$ 9 BILLION (US\$707 MILLION) AT THE END OF MAY. IT SHOULD BE NOTED THAT THIS BACKLOG OF DEBTS IS NOT AN UNUSUAL SITUATION. THE GOVERNMENT HAS FOR YEARS USED THIS TECHNIQUE TO "DEFER" EXPENDITURES. THIS POLICY, HOWEVER, HAS RECENTLY BEEN CRITICIZED ON THE GROUNDS THAT IT IS INFLATIONARY, SINCE CONTRACTORS ALLEGEDLY ADJUST THEIR BID PRICES UPWARD FOR THE EXPECTED DELAY IN PAYMENT.

5. FINALLY, IT SHOULD BE MENTIONED THAT THE FEDERAL BUDGET REPRESENTS ONLY 20 PERCENT OF TOTAL CURRENT EXPENDITURES BY THE PUBLIC SECTOR (INCLUDING ALL LEVELS OF GOVERNMENT) AND 37 PERCENT OF ITS FIXED INVESTMENT, BASED ON 1973 DATA (THE LATEST AVAILABLE COMPLETE STATISTICS ON THE PUBLIC SECTOR). WHILE THESE RATIOS WOULD

OTHERWISE PROVIDE A GOOD INDICATOR OF OVERALL
TRENDS, INDICATIONS ARE THAT THE FINANCES OF
STATE AND MUNICIPAL GOVERNMENTS HAVE RECENTLY
BEEN DETERIORATING. STATE GOVERNMENTS, FOR
INSTANCE, ARE FINDING IT EXTREMELY DIFFICULT TO
MEET THEIR SHARE OF EXPORT INCENTIVES AND HAVE
CALLED ON THE FEDERAL TREASURY TO ASSUME A
GREATER PORTION OF THE COST. FOR EXAMPLE,
THE STATE OF RIO GRANDE DO SUL HAS REACHED THE
POINT WHERE TOTAL REVENUES ARE INSUFFICIENT
TO MEET CURRENT EXPENDITURES. THEREFORE,
WHILE THE FEDERAL BUDGET MAY BE IN RELATIVELY
GOOD SHAPE, THE SITUATION AT THE STATE AND
LOCAL GOVERNMENTS LEVELS IS QUITE DIFFERENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, BUDGET ESTIMATES
Control Number: n/a
Copy: SINGLE
Sent Date: 09-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BRASIL04689
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770207-0135
Format: TEL
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770675/aaaacnpt.tel
Line Count: 130
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 403b1782-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 BRASILIA A-15
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2219628
Secure: OPEN
Status: NATIVE
Subject: GOVERNMENT BUDGET GUIDELINES FOR 1978 APPROVED
TAGS: EFIN, ECON, BR
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/403b1782-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009